

Budget Message

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A Message from the Governor

To the People of Massachusetts:

I am pleased to file my budget recommendations for fiscal year 2015.

This budget is a balanced, responsible budget that supports our growth strategy of investing in education, innovation, and infrastructure to create jobs and opportunity in the near term and strengthen our Commonwealth in the long term.

We invest in education because it is our calling card around the world. This budget invests \$100 million in new Chapter 70 education aid for local school districts, and more than \$68 million in additional funding to our public colleges and universities to invest in the development of our future leaders.

We know that children who have access to early education have a greater chance to succeed. This budget invests an additional \$15 million to provide access to early education for 1,700 children from low-to-moderate income families.

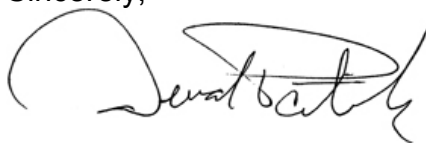
We invest in our transportation infrastructure because roads, rail and bridges create a foundation that supports private sector investment and expanded opportunity for all our residents. This budget fully funds the next phase of planned transportation investments and will end the fiscally unsustainable practice of paying for transportation staff from the capital budget.

This budget brings renewed focus to providing both youth and adults with the tools and skills to successfully re-enter society after incarceration. At the same time, we propose to expand our summer jobs program for at-risk youth, a proven pathway to success.

We have also proposed a further series of reforms to streamline government to achieve savings, create efficiencies and improve performance, accompanying the budget. Those reforms include additional transportation reforms that will generate revenue and improve business practices, the implementation of integrated facilities management to protect our capital investments and achieve operating cost savings for state buildings and investments to strengthen our preparedness and resilience against the impacts of climate change.

I am proud of the progress we have made by working together and governing for the long term over the past seven years. Let's continue this work, inspired by our shared commitment to leave to others a better Commonwealth than we found. In that spirit, I look forward to working with the Legislature on this budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Deval Patrick", with a stylized flourish at the end.

Deval L. Patrick
Governor



A Message from the Secretary of Administration and Finance

I am very proud to submit Governor Patrick's budget for fiscal year 2015.

I've worked for Governor Patrick now for over seven years, many of them within the Executive Office for Administration and Finance (A&F) assisting him in building and executing annual state budgets. So I've had the privilege of seeing, up close and first hand, how our Governor has imparted his vision to these blueprints for the operation of state government.

That vision has never wavered. Seeing how decades of economic change and political choices have undermined the American Dream – the gap between rich and poor widening, fueled by growing barriers to economic mobility; the middle class shrinking, and with a more tenuous hold on true economic security – Governor Patrick has strived to create a different paradigm: one in which our **actions** create **real opportunity** for **all of our residents**, yielding **shared prosperity**.

And so our Governor has made historic investments in education, even in the face of the greatest fiscal challenges in generations, because education is the foundation for opportunity. Investments in our K-12 schools are at a historic high; capital spending on public college classrooms and labs has quadrupled; and legislation has been enacted to enhance our tools for eradicating achievement gaps. With this Governor's commitment to education, we stand first in the nation in student achievement and are poised to make more progress on this front through his budget.

Governor Patrick has also taken bold action to lay other foundations of broad-based opportunity and shared prosperity. He has reversed decades of underinvestment in our infrastructure, recognizing that the creation of – and access to – good jobs requires safe roads, modern-day rail and high-speed Internet, *for everyone*. We have emerged as national leaders in life sciences and clean energy because of the natural strengths of our state's economy *and* initiatives launched by the Governor to nurture and accentuate them. We have vastly expanded our investments in affordable housing, knowing how important stable housing is to the success of families.

Finally, Governor Patrick has protected our state's safety net for the very most vulnerable of our citizens. Most notably, the Governor has led the implementation of our state's historic health reform initiative which has expanded health security to hundreds of thousands of additional Massachusetts residents, many with low-to-moderate incomes.

The Governor's FY 2015 budget continues striving to make the American Dream as relevant and vibrant today as it was for our parents and grandparents. It does so by fulfilling commitments initiated previously by this Administration to expand opportunity and growth. Again, we propose to invest record amounts in Chapter 70 education aid (a \$100 million increase over FY 2014), supporting the work of our local school districts to educate our young people. \$68.4 million in additional funding for our public colleges and universities invests in the development of our future leaders and a world-class system of public higher education in the Commonwealth.

The Governor's FY 2015 budget also fully funds the next phase of new transportation investments envisioned as part of a multi-year reinvestment program initiated by this Administration. These investments will end the costly practice of paying for transportation personnel on the capital budget, freeing up bond funds to build better roads, rail and bridges in every corner of the Commonwealth. The Governor's FY 2015 budget also maintains our commitment to health security, continuing to implement the Affordable Care Act in Massachusetts. And it provides an additional \$163 million to pay human service providers commensurate with the importance of the job to which we have entrusted them: taking care of some of the Commonwealth's most vulnerable residents.

Governor Patrick intends his budget not merely to keep promises made but also break *new* ground in breaking down barriers to opportunity. As countless studies show that the path to opportunity is blazed starting at the earliest age, the Governor's budget invests an additional \$15 million to expand access to early education. This builds on a similar investment in the FY 2014 budget; the combination would newly open the doors to early education for over 4,000 children from low-to-moderate income families. The budget also includes other new investments to ensure *every child* is equipped to succeed, including a \$4.5 million increase for extended learning enrichment opportunities and a \$3.1 million increase for innovative school-based approaches to improving student performance.

The need for action to create opportunity extends likewise to later ages. People are exiting our prisons without the skills they need to make better choices – and achieve better outcomes for themselves and our communities – with their second chances. The Governor's FY 2015 budget supports a comprehensive initiative to position our prison and county correctional systems more systematically to provide programs and supports proven to place and keep those leaving incarceration on the right track. With, additionally, expanded support for summer jobs for at-risk youth and continued support for the Administration's "Pay for Success" plan to reduce juvenile recidivism, this budget embodies Governor Patrick's commitment to ensuring that everyone has the opportunity to succeed.

It likewise embodies Governor Patrick's continuing commitment to fiscal responsibility. When a global recession decimated our tax revenues, the Governor maintained balanced state budgets by thoughtfully prioritizing among public investments and making government work more efficiently. He strengthened the long-term finances of state and local government in Massachusetts by securing the enactment of historic pension and municipal health insurance reforms. He has ushered in a new era of fiscal transparency by issuing the Commonwealth's first-ever Long-Term Fiscal Framework for its operating budget and Debt Affordability Policy for its capital budget. And he has brought government and labor leaders together to endorse a blueprint for finding sensible savings in retiree health care costs to preserve this benefit for career public employees. This type of fiscal leadership has earned the Commonwealth the highest bond ratings in its history.

In his budget, Governor Patrick continues to put state government on more sound fiscal footing. The budget increases the state's annual contribution towards its pension liabilities, as part of a framework jointly endorsed by the Administration and the Legislature to *accelerate* the full funding of these costs. It sets aside \$82 million to continue building up a trust fund to help pay for the long-term costs of providing health care to retired public employees. The budget also cuts the state's use of Rainy Day funds – and, overall, the net amount of one-time resources – used to support annual spending in half from FY 2014. With this restraint and the continued investment of excess capital gains revenues in our reserves, the Rainy Day Fund will end FY 2015 at \$1.2 billion – one of the largest balances in the nation, and an amount almost identical to the prior year's balance.

The Governor's FY 2015 budget also achieves important milestones in Governor Patrick's push to make the work of state government more results-oriented, data-driven and publicly accountable to taxpayers. With this budget, each Secretariat is publishing a report outlining how it performed on a series of previously announced, quantifiable indicators designed to measure the degree to which it is accomplishing its mission. In a similar vein, we are enhancing the "program budget" format initiated in the Governor's budget last year by now including expressly articulated success measures alongside published funding amounts for programs. These are major steps towards instituting a recurring discipline of rigorously, objectively and comprehensively articulating goals for state government and measuring whether we are achieving them, in a manner that empowers taxpayers to be full participants in a conversation about public ends and means.

The Executive Office for Administration and Finance would like to thank Governor Patrick for the inspiration and guidance he provides in crafting the state budget. We are privileged to work for him. We would additionally like to thank the Governor's staff and our colleagues throughout the Executive Branch who have helped us craft this budget. We also appreciate our ongoing collaboration with the

Senate and House Ways and Means Committees, led respectively by Chairman Stephen Brewer and Chairman Brian Dempsey, and look forward to working with them and their legislative colleagues on the enactment of a FY 2015 budget in the months to come.

I am so honored to be part of such a great team at A&F. I am deeply grateful to every member of our team who contributed to building this budget. Above all, I would like to thank Emme Schultz, Assistant Secretary for the Budget and Fiscal Operations, for her exceptional leadership of this endeavor.

A handwritten signature in black ink, appearing to read "Glen Shor", with a stylized flourish extending to the right.

Glen Shor
Secretary



Summary of Fiscal Year 2015 Budget

The Governor's FY 2015 budget is a balanced, responsible budget that supports the Administration's growth strategy of investing in education, innovation and infrastructure to create jobs and opportunity in the near term and strengthen our Commonwealth in the long term.

Governor Patrick is committed to investing in education because it is our calling card to the world and is one of the best investments we can make in the future of our Commonwealth. As a result of the Administration's strategic investments in education and innovation to date, the Commonwealth's students perform at the top in national and international assessments of academic achievement. However, persistent achievement gaps remain, leaving too many young people behind. The FY 2015 budget proposes \$204.9 M in increased education funding designed to make progress in closing achievement gaps and expand education access at all levels, from birth through higher education.

- Supporting Cities and Towns – Governor Patrick proposes \$100 M in increased Chapter 70 local aid, which keeps every school district at foundation levels of spending, guarantees an increase of \$25 per pupil for every district, makes significant progress on the Chapter 70 equity reforms of 2007 and eliminates the cap on the number of pre-kindergarteners included in Chapter 70 district enrollment.
- Recognizing Early Education as a Key to Student Success – The Governor proposes to continue his commitment to the early education and care system as essential to addressing the achievement gap. In FY 2015, this commitment will include investments to support children served by the Department of Early Education and Care (EEC). The Governor's FY 2015 budget increases access to high-quality early education programs for qualified children from birth to age five with a \$15 M investment and ensures that increased access is paired with providing high-quality early education environments for children and youth.
- Supporting Our Highest Need Students – The Governor proposes targeted investments to improve student performance, including \$4.5 M to finance expanded learning time for middle school students, \$3.1 M in new funding for schools that want to voluntarily engage in innovative approaches to improving student performance and additional funding for comprehensive supports to students and their families in Gateway Cities.
- Promoting Equity in Higher Education – The Governor's proposal includes \$1.1 B in higher education funding in FY 2015. This includes a \$68.4 M investment in the development of future leaders.

Governor Patrick is proposing to further strengthen the critical social safety net provided by state government. In the face of the toughest economic times in a generation, the Governor has protected services for our most vulnerable residents. Governor Patrick continues to prioritize these necessary services in FY 2015.

- Supporting Human Service Workers and Those They Serve – The Patrick Administration is committed to supporting human service providers as the central component of a successful safety net. Providing critical supports to our most vulnerable residents, human service providers employ nearly 200,000 people and serve approximately one out of every ten Massachusetts residents. On the front-lines of an aging workforce and an economy that is increasingly unequal, human services personnel play a vital role in securing the social and economic fabric of the Commonwealth. The FY 2015 budget provides an investment of \$163 M above FY 2014 to support human services and the Administration is committed to complete implementation of the 2008 Chapter 257 legislation to ensure fair and adequate payment rates for health care providers. Including this investment, the Governor's FY 2015 budget supports \$213 M for provider rates implemented in FY 2014 or planned for in FY 2015, as well as \$7 M to continue the commitment to salary equity for human service workers not yet affected by rate adjustments.
- Expanding Access to High Quality Health Care – Consistent with Governor Patrick's leadership in implementing the state's historic health care reform and cost-containment initiatives, the FY

2015 budget expands and streamlines access to health care for individuals and working families, while saving taxpayer dollars through additional federal reimbursements made possible by the Affordable Care Act (ACA). The budget provides \$1.7 B for those who are covered by the state's Medicaid program under the Affordable Care Act, of which 80% is offset by additional federal revenue.

- Promoting Strong, Safe Communities – The Governor's FY 2015 budget also makes significant investments to support strong and safe communities for our youth and families. This budget includes \$9.5 M for the Safe and Successful Youth Initiative, \$7 M for the Commonwealth's landmark Juvenile Justice Pay for Success Initiative to prevent youth recidivism into our adult criminal justice system while paying only after results are achieved, \$9.2 M for capacity building and operational improvements at the Department of Children and Families to better serve families in need and \$15 M to implement "Raise the Age" legislation signed by the Governor in 2013 that changes juvenile jurisdiction laws to support the rehabilitation of young people through age 18.

The Governor's FY 2015 budget furthers the commitments enacted in the 2013 transportation finance legislation by increasing operating funding for the Department of Transportation (MassDOT) and the Massachusetts Bay Transportation Authority (MBTA) by \$141 M. This investment comes in addition to the \$12.4 B included in the MassDOT Capital Investment Plan over the next five years to improve Massachusetts transportation assets.

- Sustainably Financing the MBTA – Governor Patrick continues to eliminate an inherited MBTA structural operating deficit in FY 2015, which prior to FY 2014 had been solved through the use of one-time, unsustainable funding sources.
- Enhancing Service to Promote Economic Growth – The Governor's FY 2015 budget continues to make modest MBTA service enhancements including bus and subway service improvements.
- Removing Payroll from our Credit Card – Finally, the Governor's FY 2015 budget takes another step to end the decades-old practice of using borrowed funds (bonds) to pay for personnel. This will allow millions in additional capital investment, consistent with the 2013 transportation finance law.

The Governor's FY 2015 budget includes funding for other key priorities that are consistent with the Governor's desire to change the way government does business – and effectuate positive results for the citizens of the Commonwealth.

- Criminal Justice and Reentry Reform – The Governor's plan for reentry will dramatically improve inmates' reentry into their communities, increase opportunities for formerly incarcerated individuals and enhance public safety. The budget includes \$2.1 M to support this work at the Executive Office of Public Safety and Security, the Department of Public Health and Sheriffs' Departments.
- Climate Preparedness – The Patrick Administration will expand its climate change efforts through a \$52 M cross-Secretariat investment using operating, capital and trust resources. Of the \$52 M investment, the Governor's FY 2015 budget includes \$2 for the Executive Office of Energy and Environment to collaborate with Secretariats in determining the investments that will have the most effective immediate and long-lasting impact on our climate change preparedness. The preparedness strategies that will benefit most from enhanced collaboration relate to the Commonwealth's infrastructure, specifically transportation, energy, our communities and public health.

Fiscal Responsibility

Governor Patrick has proactively and responsibly managed the state's finances in the wake of a global recession to ensure balanced and sustainable budgets. The Governor's FY 2015 budget continues his Administration's commitment to strong fiscal and economic stewardship.

- Record Credit Ratings – The Commonwealth now has the highest credit ratings in its history – AA+ or Aa1 from all three rating agencies.

- Setting Aside Reserves – Due to the Patrick Administration's dedication to fiscal restraint, the Commonwealth has among the highest Stabilization Fund balances in the country. The Governor's FY 2015 budget withdraws from the reserve half of what was required to balance the FY 2014 budget, leaving the Stabilization Fund with a projected \$1.2 B balance at the end of FY 2015.
- Sustainable Public Finance – This budget makes a significant reduction in the number of one-time resources required to balance the budget by relying on \$334 M of non-recurring solutions, a 50% reduction from the FY 2014 budget and a 63% reduction from FY 2013. The Governor's FY 2015 budget relies on spending and tax revenue estimates that are increasing at the same rate (4.9%), representing a limited reliance on other solutions to close the gap between spending and recurring revenue that has persisted for many years and was made worse by the recession.
- Responsibly Funding Long-Term Liabilities – The Governor's FY 2015 budget includes a \$1.79 B pension appropriation. The FY 2015 appropriation, which is part of an updated pension funding schedule recently announced by the Secretary of Administration and Finance and the Legislature, represents a \$163 M increase over FY 2014 and a \$65 M increase over the FY 2015 in the previously adopted pension schedule. The updated schedule not only requires a significant increase in the pension appropriation, it also accelerates the timeline by which full funding of the pension system must occur. The Governor's FY 2015 budget also includes an \$82 M deposit into the State Retiree Benefits Trust Fund to address the Commonwealth's unfunded retiree health benefit (OPEB) liability.

FYs 2014 and 2015 One-Time Resources \$s in millions			
	FY 2014 Revised*	FY 2015 House 2	% Change
Budgetary Resources:			
FY 2013 Resources Used to Support Ongoing FY 2014 Costs	31.0		
Stabilization Fund Withdrawal	350.0	175.0	
Stabilization Fund Interest	5.8	10.7	
Delay FAS 109 Deduction	45.9	45.9	
Medicaid Payment Schedule Changes	41.0	13.0	
Gaming Licensing Funds Supporting Ongoing Costs	14.7	53.5	
Sale of Assets	30.0		
Procurement Savings	30.0		
OPEB funded through Debt Service Reversions	50.6		
Federal Revenues		32.3	
Non-Budgetary Resources:			
Trust Fund Sweeps	61.0	4.0	
Quasi Public Contributions	7.0		
TOTAL ONE TIME RESOURCES	667.0	334.4	-50%
Less: Stabilization Fund Deposits	(57.8)	(109.8)	
NET ONE TIME RESOURCES	609.2	224.6	-63%

*Revised since the Governor signed the FY 2014 budget on July 12, 2013.

Summary of Spending Changes from FY 2014

The table below outlines changes in major spending categories in the Governor's FY 2015 budget proposal.

Annual Change in Budgetary Spending by Category			
	FY 2014 Estimated	FY 2015 House 2	Annual Change
Investments in Education:			
Early Education and K-12 Programs	5,430.0	5,566.5	136.5
Higher Education	1,064.1	1,132.5	68.4
Investments in Transportation:	764.4	905.4	141.0
Health Care*:	14,317.0	15,429.7	1,112.7
Safety Net (non Health Care):	4,497.0	4,669.0	172.0
Legal Obligations:			-
Debt Service	2,432.0	2,507.7	75.7
Pensions	1,630.0	1,793.0	163.0
All Other Spending:	4,487.8	4,369.8	(118.1)
TOTAL ANNUAL SPENDING CHANGES	36,312.3	38,166.5	1,854.2
TOTAL ANNUAL SPENDING CHANGES (EXCLUDING PENSIONS)	34,682.3	36,373.5	1,691.2

*Health care cost estimates represent gross cost, without accounting for federal revenue or offsetting municipality or authority contributions.

75% of the state budget is dedicated to health care, human services, education and aid to cities and towns. All other areas of the budget, including the state's obligations for debt service and employee pensions, decrease next year by \$118.1 M combined.

Revenue Initiatives and Other Budget Solutions

Annual Change in Budgetary Resources			
	FY 2014 Estimated	FY 2015 House 2	Annual Change
Budgetary Revenue:			
Projected Baseline Tax Collections*	23,154.4	24,337.0	1,182.6
Transfer of Capital Gains in Excess of Statutory Maximum	(37.0)	(122.0)	(85.0)
Transfer for Annual Pension Contribution	(1,630.0)	(1,793.0)	(163.0)
Transfer for OPEB Liabilities**	-	(75.0)	(75.0)
Transfers of Tax Revenue to MBTA, SBA and Workforce Training Fund	(1,549.8)	(1,605.0)	(55.2)
Federal Reimbursements	8,595.0	9,522.0	927.0
Departmental Revenues	3,569.2	3,689.9	120.7
Transfers from Non-Budgeted Sources	1,844.0	1,744.5	(99.5)
Stabilization Fund Withdrawal	350.0	175.0	(175.0)
Prior Year Funds Used to Support Current Year Budgetary Spending	245.2	13.9	(231.3)
Delay of FAS 109	45.6	45.6	-
Other New Revenues Supporting the Budget:			
Aligning Settlements with Capital Gains Stabilization Fund Policy***	-	203.5	203.5
Closing Tax Loopholes	-	40.3	40.3
Taxing Candy and Soda to Support Public Health Programs	-	57.0	57.0
Revenue from Category 2 Gaming Establishment Operation	-	20.0	20.0
Modernize Bottle Redemption	-	24.1	24.1
CHANGE IN BUDGETARY RESOURCES (INCLUSIVE OF RESOURCES FOR PENSIONS):			1,691.2

*FY 2014 tax figure reflects revised estimate after excluding FAS 109 delay, separately categorized below.

**In FY 2014, \$50.6 M is dedicated to OPEB from debt service savings.

***In FY 2014, \$184 M in settlements in excess of \$10 M included in Projected Baseline Tax Collections.

Tax Receipts

Tax revenue is forecasted to grow from \$23.2 B in FY 2014 to \$24.34 B in FY 2015, a 4.9% or \$1.14 B increase. A portion of the tax revenues are not available for the budget (\$122 M) corresponding to the

state's fiscal policy to limit the amount of capital gains revenue included within the state budget. Finally, transfers of tax revenues for pension and other dedicated purposes, such as the Massachusetts School Building Authority (SBA) and the Massachusetts Bay Transportation Authority (MBTA) are expected to increase by \$55 M in FY 2015.

New Tax Revenue

The Governor's FY 2015 budget calls for \$57 M in new tax revenue derived from applying the sales tax to candy and soda purchases. This revenue will be dedicated to supporting public health services and infrastructure in the Commonwealth. In addition, the Governor's FY 2015 budget includes \$40 M in tax revenues by proposing to close loopholes that the Governor has supported closing in previous fiscal years, including imposing the room occupancy tax on the mark-up that room resellers like online travel websites receive as well as applying the room occupancy tax on transient rentals, and applying the corporate tax rate to pass-through entities owned by insurance companies and security corporations.

Non-Tax Revenues

Non-tax revenues in FY 2015 are expected to total \$15.18 B, up from \$14.6 B in FY 2014. Growth in these revenues is mostly due to the increased federal revenues the state receives for operating the federal Medicaid program (in Massachusetts known as MassHealth). In addition, modest increases are proposed in departmental revenues and other budgetary transfers from non-budgeted sources, such as the State Lottery Fund.

Other revenues in FY 2015 include: approximately \$203.5 M more from refining our policy on settlements or judgments in excess of \$10 M to more closely align with our capital gains provision, which sets a threshold above which capital gains collections are unavailable to support budgetary expenditures and instead must be dedicated to the Commonwealth's Stabilization Fund; \$20 M of operating tax revenue collections from the launch of the first Massachusetts gaming establishment at the end of calendar year 2014; and \$24.2 M from modernizing the state's existing bottle redemption law to include bottled water and sports drinks.

